Approved: March 22, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION.

The meeting was called to order by Chairperson David Adkins at 9:00 a.m. on February 9, 1999 in Room 519-S of the Capitol.

All members were present except: All present

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes
Shirley Sicilian, Department of Revenue
Mary Shaw, Committee Secretary

Conferees appearing before the committee:
Lynn Mitchelson, Greater Kansas City Chamber of Commerce
Mary Birch, Overland Park Chamber of Commerce
Natalie Bright, Kansas Chamber of Commerce and Industry
Hal Hudson, National Federation of Independent Business
Karen France, Kansas Association of Realtors
Rich McKee, Kansas Livestock Association
Christy Caldwell, Greater Topeka Chamber of Commerce
Bill R. Fuller, Kansas Farm Bureau
Karl Peterjohn, Kansas Taxpayers Network (written)
Mark Tallman, Kansas Association of School Board

Others attending: See attached list.

The Chairman opened the meeting to committee bill introductions.

Representative Adkins made a motion, and seconded by Representative Vickrey, to introduce a committee bill that would authorize credits for the hiring of developmentally disabled persons. Motion carried.

The Chairman introduced April Holman, Staff, Legislative Research Department who distributed the Tax Incidence Report Information that was requested by the committee regarding information Dr. W. Bartley Hildreth had referred to in his presentation the prior week (Attachment 1).

The Chairman gave a brief explanation of the two bills that were scheduled for hearings, **HB 2190** and **HB 2188**. He also directed the committees' attention to a summary sheet which was distributed that provides a summary of the fiscal impact of the two measures (Attachment 2). The Chairman noted that the figures were put together by Chris Courtwright, Shirley Sicilian and the Department of Revenue.

The Chairman opened the hearing on:

HB 2190 - Income tax rates reduced

The Fiscal Note was distributed for **HB 2190** (Attachment 3).

Proponents:

The Chairman introduced Lynn Mitchelson, Proponent, Senior Vice President at NationsBank who testified on behalf of the Greater Kansas City Chamber of Commerce (Attachment 4).

The Chairman introduced Mary Birch, Proponent, President of the Overland Park Chamber of Commerce (Attachment 5). Ms. Birch also distributed copies of a letter the Overland Park Chamber had received from Gordon Gregory of Gregory Associates in favor of personal and corporate income tax rate reductions (Attachment 6).

The Chairman introduced Natalie Bright, Proponent, Director of Taxation, Kansas Chamber of Commerce and Industry (Attachment 7).

The Chairman introduced Hal Hudson, Proponent, State Director Kansas Chapter, National Federation of Independent Business (Attachment 8).

The Chairman acknowledged Bernie Koch, Wichita Area Chamber of Commerce, who spoke in support of **HB 2190.** Mr. Koch noted that one problem in their area is attracting new workers to the manufacturing industries which are high tech and high paying jobs. He mentioned that they do hear from human resources people in their area that it is a problem due to high personal income tax rates. No written testimony was submitted.

Questions and discussion followed conferee testimony.

The Chairman closed the hearing on **HB 2190**.

The Chairman opened the hearing on:

HB 2188 - Statewide school property tax levy rate

The Fiscal Note was distributed for **HB 2188** (Attachment 9).

Proponents:

The Chairman introduced Karen France, Proponent, Director of Governmental Affairs, Kansas Association of Realtors (Attachment10).

The Chairman introduced Rich McKee, Proponent, Executive Secretary, Feedlot Division, Kansas Livestock Association (Attachment 11).

The Chairman introduced Christy Caldwell, Proponent, Vice President, Governmental Relations, Greater Topeka Chamber of Commerce (Attachment 12).

The Chairman introduced Natalie Bright, Proponent, Director of Taxation, Kansas Chamber of Commerce and Industry (Attachment 13).

The Chairman introduced Hal Hudson, Proponent, State Director Kansas Chapter, National Federation of Independent Business (Attachment 14).

The Chairman introduced Bill Fuller, Proponent, Associate Director, Public Affairs Division, Kansas Farm Bureau (Attachment 15).

Written Testimony:

Karl Peterjohn, Proponent, Executive Director, Kansas Taxpayer Network, submitted written testimony (Attachment 16).

Opponents:

The Chairman introduced Mark Tallman, Opponent, Assistant Executive Director for Advocacy, Kansas Association of School Boards (Attachment 17).

Discussion and questions followed the conferee testimony.

MINUTES OF THE HOUSE COMMITTEE ON TAXATION, Room 519-S Statehouse, at 9:00 a.m. on February 9, 1999.

The Chairman closed the hearing on **HB 2188**.

The meeting adjourned at 10:07 a.m.

The next meeting is scheduled for February 10, 1999.

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: Feb. 9, 1999

George Welch	Barbee + Assoc.
Bill Fuller	Kansas Farm Bureau
Alex A. Kotoyantz	JC/Geary Co Convention Bureau
George Petersen	KS TAXPAYERS NETWORK
RICHARD RODEWALD	TAX PAYERS
Kelly Kultala	City of Overland Park
Hal Hudson	NFIB/Kansas
Don Rezac	USD 321
Mark Tallman	KASB
Denis Stanley	USD 340
Rich McKee	KLA
Jim Allen	KEC
Martin Hawver	Hawver's Capitol Report
Doug Wareham	KGFA & KFCA
Christy Caldwell	Topeka Chamber of Commerce
Craig Grant	KNEA
[illegible]	Intern for Rep. Clay Aurand
Jacquelyn Cole	Senator Lyon - Intern
[illegible]	NationsBank 1000 College O.P. Kansas

HOUSE TAXATION COMMITTEE
GUEST LIST
DATE: Feb. 9, 1999

Natalie Bright	KCCI
Bernie Koch	Wichita Area Chamber
Ashley Sherard	Overland Park Chamber
Mary Birch	Overland Park Chamber
Martha Jen Smith	KMHA

MINNESOTA STATUTES

Sec. 270.0682. Tax incidence reports.

Subdivision 1. Biennial report. The commissioner of revenue shall report to the legislature by March 1 of each odd-numbered year on the overall incidence of the income tax, sales and excise taxes, and property tax. The report shall present information on the distribution of the tax burden (1) for the overall income distribution, using a systemwide incidence measure such as the Suits index or other appropriate measures of equality and inequality, (2) by income classes, including at a minimum deciles of the income distribution, and (3) by other appropriate taxpayer characteristics.

Subdivision. 2. Bill analyses. At the request of the chair of the house tax committee or the senate committee on taxes and tax laws, the commissioner of revenue shall prepare an incidence impact analysis of a bill or a proposal to change the tax system which increases, decreases, or redistributes taxes by more than $20,000,000. To the extent data is available on the changes in the distribution of the tax burden that are affected by the bill or proposal, the analysis shall report on the incidence effects that would result if the bill were enacted. The report may present information using systemwide measures, such as Suits or other similar indexes, by income classes, taxpayer characteristics, or other relevant categories. The report may include analyses of the effect of the bill or proposal on representative taxpayers. The analysis must include a statement of the incidence assumptions that were used in computing the burdens.

Subdivision. 3. Income measure. The incidence analyses shall use the broadest measure of economic income for which reliable data is available.

HIST: 1990 c 604 art 10 s 9

House Taxation
2-9-99
Attachment 1

TEXAS STATUTES

Sec. 403.014. Report on Effect of Certain Tax Provisions.

(a) Before each regular session of the legislature, the comptroller shall report to the legislature and the governor on the effect, if it is possible to assess, of exemptions, discounts, exclusions, special valuations, special accounting treatments, special rates, and special methods of reporting relating to:

(1) sales, excise, and use tax under Chapter 151, Tax Code;

(2) franchise tax under Chapter 171, Tax Code;

(3) school district property taxes under Title 1, Tax Code; and

(4) any other tax generating more than five percent of state tax revenue in the prior fiscal year.

(b) The report must include:

(1) an analysis of each special provision that reduces the amount of tax payable, to include an estimate of the loss of revenue for a six-year period including the current fiscal biennium and a citation of the statutory or legal authority for the provision; and

(2) for provisions reducing revenue by more than one percent of total revenue for a tax covered by this section, the effect of each provision on the distribution of the tax burden by income class and industry or business class, as appropriate.

(c) The report may include:

(1) an assessment of the intended purpose of the provision and whether the provision is achieving that objective; and

(2) a recommendation for retaining, eliminating, or amending the provision.

(d) The report may be included in any other report made by the comptroller.

(e) At the request of the chair of a committee of the senate or house of representatives to which has been referred a bill or resolution establishing, extending, or restricting an exemption, discount, exclusion, special valuation, special accounting treatment, special rate, or special method of reporting relating to any state tax, the Legislative Budget Board with the assistance, as requested, of the comptroller shall prepare a letter analysis of the effect on the state's tax revenues that would result from the passage of the bill or resolution. The letter analysis shall contain the same information as provided in Subsection (b), as appropriate.

(f) The comptroller and Legislative Budget Board may request from any state officer or agency information necessary to complete the report or letter analysis. Each state officer or agency shall cooperate with the comptroller and Legislative Budget Board in providing information or analysis for the report or letter analysis.

Acts 1987, 70th Leg., ch. 147, Sec. 1, eff. Sept. 1, 1987.

Amended by Acts 1997, 75th Leg., ch. 1035, Sec. 47, eff. June 19, 1997.

Sec. 403.0141. Report on Incidence of Tax.

(a) Before each regular session of the legislature, the comptroller shall report to the legislature and the governor on the overall incidence of the school district property tax and any state tax generating more than 2.5 percent of state tax revenue in the prior fiscal year. The analysis shall report on the distribution of the tax burden for the taxes included in the report.

(b) At the request of the chair of a committee of the senate or house of representatives to which has been referred a bill or resolution to change the tax system that would increase, decrease, or redistribute tax by more than $20 million, the Legislative Budget Board with the assistance, as requested, of the comptroller shall prepare an incidence impact analysis of the bill or resolution. The analysis shall report on the incidence effects that would result if the bill or resolution were enacted.

(c) To the extent data is available, the incidence impact analysis under Subsections (a) and (b):

(1) shall evaluate the tax burden:

(A) on the overall income distribution, using a systemwide incidence measure or other appropriate measures of equality and inequality; and

(B) on income classes, including, at a minimum, quintiles of the income distribution, on renters and homeowners, on industry or business classes, as appropriate, and on various types of business organizations;

(2) may evaluate the tax burden:

(A) by other appropriate taxpayer characteristics, such as whether the taxpayer is a farmer, rancher, retired elderly, or resident or nonresident of the state; and

(B) by distribution of impact on consumers, labor, capital, and out-of-state persons and entities; and

(3) shall:

(A) use the broadest measure of economic income for which reliable data is available; and

(B) include a statement of the incidence assumptions that were used in making the analysis.

Added by Acts 1997, 75th Leg., ch. 1035, Sec. 48, eff. Sept. 1, 1997.

Study Shows Who Really Bears the Sales-Tax Burden

By ROBERT ELDER JR.
Staff Reporter of THE WALL STREET JOURNAL

Who pays the most taxes in Texas, and who benefits the most by not paying them?

The answer can be found in the biennial reminder from the state Comptroller's Office of how much tax breaks already on the books "cost" the state in lost revenue. The report, released as the Texas Legislature prepares to debate the merits of additional tax breaks to business, shows the state's tax leniency is adding up: Exemptions on sales and franchise taxes will total $20.5 billion in fiscal 1999, which ends Aug. 31, with sales-tax exemptions making up all but $1.1 billion of that total. Those are big numbers, considering that the state is budgeted to spend $43.1 billion in fiscal 1999.

More important, especially for policy makers, the comptroller's report for the first time has a "tax incidence" analysis that shows which Texans bear the ultimate burden in paying for state taxes. The report, not surprisingly, found that low-income Texans shoulder a hugely disproportionate share of the state tax load—long a contention of critics of the current sales-tax-driven system. The report also reveals that higher-income groups profit from the exemptions to a far greater extent than those in lower-income brackets.

The Breakdown
Poorer Texans have a higher tax burden

ANNUAL HOUSEHOLD INCOME	PERCENT OF INCOME PAID IN TAXES
Less than $9,015	28.3%
9,015 - 14,769	11.[illegible]
14,769 - 20,228	10.6
20,228 - 26,147	8.6
26,147 - 34,266	8.4
34,266 - 44,417	7.1
44,417 - 57,491	6.3
57,491 - 74,357	6.2
74,357 - 107,664	5.4
107,664 and over	3.1
State average	5.5

Source: Center for Public Policy Priorities, based on Texas Comptroller of Public Account's "Tax Exemptions and Tax Incidence Report"

Those relative burdens, some tax-reform advocates say, ought to give legislators a road map on deciding which tax breaks to grant. "Once more legislators have seen the report, I think they'll be inclined to deliver tax relief through sales-tax cuts or a tax holiday of some sort," says state Sen. Eliot Shapleigh, a Democrat from El Paso who sponsored the 1997 legislation requiring the study.

Though the study doesn't tote up the effects of all the tax breaks, a few examples are revealing. The one-fifth of Texas families with annual incomes below $14,769 save about $25.7 million a year from the sales-tax exemption for prescription medicines and corrective lenses, or about 22% of the total savings from those exemptions. That compares with about $27.9 million in savings, or 23.7% of the total, for the one-fifth of families earning more than $74,357. But the lowest one-fifth saves $142 million, or about 15% from the food exemption, while the top fifth saves $174.4 million, or about 28%.

Upper-income households benefit—indirectly of course—even more from the $8.2 billion sales-tax exemption for manufacturing equipment; about $1.2 billion of the benefit of the total flows to the wealthiest families, while only about $157.1 million of the savings goes to the poorest 20%. (About $5.7 billion of the benefits are exported out of state.)

The $5.6 billion in surplus funds available for the biennium is generating a flurry of tax proposals. Telecommunications and other high-tech companies have asked for credits against their franchise taxes for research-and-development activities. The proposal, supported by Gov. George W. Bush, is projected to cut tax collections by $250 million for the two-year budget period. And Gov. Bush has laid out his own tax-cut proposals, including a plan to exempt over-the-counter medicines, health aids and diapers from sales tax.

The governor has also proposed to cut school property taxes by $2 billion. But critics of that plan say the report highlights the unfairness of using the surplus to cut property taxes. The reason: Sales taxes account for 55% of state revenue—and therefore are the largest single contributor to the surplus—yet they're one of the most burdensome taxes for low-income Texans. So the governor is proposing to use money generated by one of the most regressive taxes to pay for a cut in the property tax, which the comptroller's report says is less regressive.

"Even though the governor says he's giving the money back to the hands that earned it, he's taking a surplus created by sales taxpayers and giving it back to property taxpayers—and those are not necessarily the same people," says Dick Lavine, a tax analyst with the Center for Public Policy Priorities, an Austin-based advocacy group for low-income Texans. Many poorer Texans who pay sales taxes don't own homes, Mr. Lavine says, and won't reap the benefits of property-tax cuts, particularly if landlords don't pass along savings.

Karen Hughes, the governor's spokeswoman, says critics miss the larger point of the tax-cut proposals. The plans are designed not only to lower the tax burden on property owners but to make the state, not local property taxes, the primary source of funding for public schools. Further, Ms. Hughes says, the governor also recognizes the need for tax breaks that benefit all income groups.

"That was the genesis for the governor's proposal to eliminate the sales tax" on diapers and certain medicines, Ms. Hughes says.

Meanwhile, Mr. Lavine proposes applying the comptroller's analysis to all legislation that would significantly affect state revenues, much in the way the Legislative Budget Board attaches a "fiscal note" to legislation showing how much the law would cost the state treasury. Such an approach, he says, would show lawmakers which Texans are being most affected by the revenue measures they consider.

Sen. Shapleigh also favors this approach, at least for big-ticket items like the R&D credit proposal. Right now, committee chairmen can request such an analysis on select bills.

But other, more influential lawmakers aren't so sure an incidence analysis would make much difference in a bill's fate. "Simply because some economist makes a statement that a tax impacts one segment or another, it doesn't necessarily translate into members' votes," says Sen. Bill Ratliff, a Mount Pleasant Republican and chairman of the Senate Finance Committee. Take the sales tax: "While people always talk about the fact it's the most regressive," Sen. Ratliff says, "our constituents also tell us the sales tax is one tax you don't have to pay if you don't buy anything."

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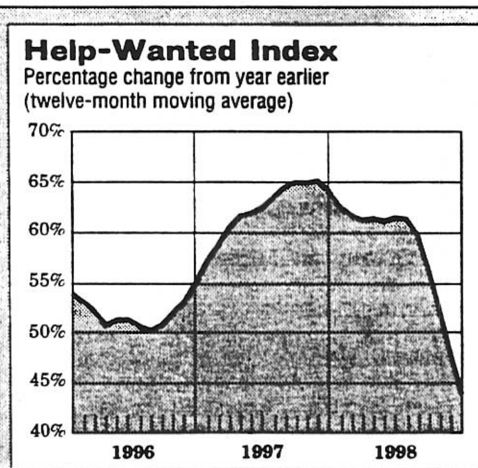
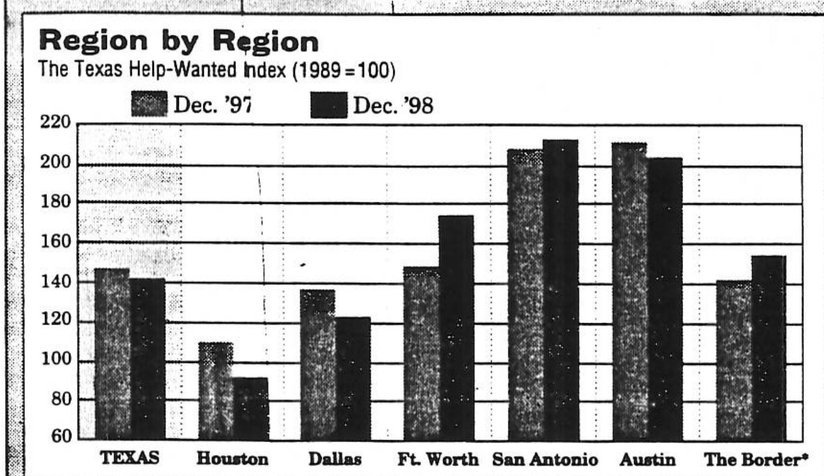
Wall Street Journal

TRACKING TEXAS 2/3/99

THE TEXAS HELP-WANTED-ADS INDEX statewide percentage of rising regional markets continued its five-month plunge, indicating weakness in the state's economic expansion. The index, a leading economic indicator, fell in December to 43.9, its lowest since 1991, signaling a drop in the number of metropolitan markets with a higher demand for labor. Fort Worth showed the strongest increase among the large metro areas, followed by the Mexican-border cities. San Antonio showed signs of a tighter market, but Austin posted a small decline. Houston's index fell 16%, and Dallas's declined 10%.





*Brownsville, El Paso, Laredo, McAllen

Source: Texas Perspectives Inc., Austin

1-6

House Taxation
2-9-99
Attachment 2

Governor's Tax Package

FY	c and i m and e credit to 20%	car taxes	severance	adoption	grain	**total**
00	($6.5)	---	($3.8)	($1.9)	($0.7)	**($12.9)**
01	($10.5)	($22.5)	($5.1)	($1.9)	($0.8)	**($40.8)**
02	($11.3)	($79.4)	($7.6)	($1.9)	($0.9)	**($101.1)**
03	($12.2)	($144.3)	($7.6)	($1.9)	($0.9)	**($166.9)**
04	($13.2)	($218.0)	($7.6)	($1.9)	($0.9)	**($241.6)**
Total 5 yrs	($53.7)	($464.2)	($31.7)	($9.5)	($4.3)	**($563.4)**

HB 2188

(Current Law is 20 mills)

FY	USD Gen Fund Prop Tax Levy Reduction	Mills	
00	($12.9)	18.76	tax yr 99
01	($40.8)	17.00	tax yr 00
02	($101.1)	12.84	tax yr 01
03	($166.8)	10.12	tax yr 02
04	($241.6)	6.10	tax yr 03
	($563.2)		

HB 2190

Individual and Corporation Income tax rate cuts (indiv start in ty 99; corp starts in ty 2001)

FY	individual	corporate	total
00	($13.9)	$0.0	($13.9)
01	($38.9)	($2.0)	($40.9)
02	($105.3)	($6.5)	($111.8)
03	($138.5)	($8.5)	($147.0)
04	($234.8)	($13.0)	($247.8)
	($531.4)	($30.0)	($561.4)

HB 2190 Rate Reduction Detail

<u>Individuals</u> Taxable Income Bracket	Current <u>Law</u>	Tax Year <u>99, 00</u>	Tax Year <u>01, 02</u>	Tax Year <u>03</u>	Tax Year <u>04</u>
Bottom (0-30k joint; 0-15k others)	3.50%	***3.43%***	***2.80%***	***2.40%***	***2.25%***
Middle (30k to 60k; 15k to 30k)	6.25%	6.25%	6.25%	***6.00%***	***5.50%***
Top (60k + joint; 30k + others)	6.45%	6.45%	6.45%	6.45%	***6.25%***

<u>Corporations</u> Taxable Income Bracket	Current Law	Tax Year 99, 00	Tax Year 01, 02	Tax Year 03
Bottom (0-50k)	4.00%	4.00%	***3.75%***	***3.50%***
Top (50k +)	7.35%	7.35%	***7.10%***	***6.85%***

STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(785) 296-2436
FAX (785) 296-0231

Bill Graves
Governor

Duane A. Goossen
Director

February 8, 1999

The Honorable David Adkins, Chairperson
House Committee on Taxation
Statehouse, Room 448-N
Topeka, Kansas 66612

Dear Representative Adkins:

SUBJECT: Fiscal Note for HB 2190 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2190 is respectfully submitted to your committee.

The bill reduces individual and corporate income tax rates beginning in tax year 1999. For tax years 1999 and 2000, the income tax rates for married individuals filing jointly are reduced 2.0 percent. For all other individuals, the income tax rates for those years are reduced 16.4 percent for taxable incomes of $15,000 or less, 37.3 percent for taxable incomes over $15,000 but not over $30,000 and 7.6 percent for incomes over $30,000. The bill contains further income tax reductions for married persons filing jointly and all other individuals in tax years 2001, 2002 and 2003.

The bill also reduces the corporate income tax rate from the currently approved 4.0 percent to 3.75 percent in tax years 2001 and 2002. The rate is further reduced to 3.5 percent in tax year 2003.

Estimated State Fiscal Impact				
	FY 1999 SGF	FY 1999 All Funds	FY 2000 SGF	FY 2000 All Funds
Revenue	--	--	($13,900,000)	($13,900,000)
Expenditure	--	--	$96,198	$96,198
FTE Pos.	--	--	--	--

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Attachment 3

The Department of Revenue estimates the passage of HB 2190 would reduce receipts to the State General Fund by $13.9 million in FY 2000. The agency also estimates one-time administrative costs totaling $96,198, of which $75,750 would be for postage and printing costs and $20,448 for programming costs. The following table details the income tax reductions by fiscal year and tax source:

	Individual	Corporate	Total
FY 2000	$13,900,000	--	$13,900,000
FY 2001	38,900,000	2,000,000	40,900,000
FY 2002	105,300,000	6,500,000	111,800,000
FY 2003	138,500,000	8,500,000	147,000,000
FY 2004	234,800,000	13,000,000	247,800,000

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Lynn Robinson, Department of Revenue

Legislative Testimony on HB 2190
by
Lynn Mitchelson
before the
House Taxation Committee
February 9, 1999

Good morning Mr. Chairman and committee members. Thank you for the opportunity to appear in favor of HB 2190, which reduces individual and corporate income tax rates. My name is Lynn Mitchelson. I am a senior vice president at NationsBank and team leader of the Johnson County Growth Group. I am here testifying on behalf of the Greater Kansas City Chamber of Commerce.

The Greater Kansas City Chamber of Commerce represents nearly 800 Kansas-based businesses in the Greater Kansas City metro area. In October 1998, The Chamber contracted with a professional polling firm to conduct a membership survey on government relations issues. In the survey, The Chamber's Kansas members were asked to choose the **one** state tax that was the **most important** to reduce. The state taxes listed on the survey were individual income, property, corporate income taxes and sales/use taxes. The **individual income tax was chosen by the largest number of Kansas Chamber members (34 percent) as the most important state tax to reduce**. Property tax reduction came in second at 31 percent. The corporate income tax ranked third at 16 percent, which reflects the small number of Kansas Chamber members that pay this tax. Please refer to the handout attached to my testimony for a chart of these survey results.

Individual income tax reductions will spur the continued growth of the small business sector, which drives economic growth and job creation in our state. The effect of individual income taxes on small business income is significant. This is because of the large amount of business income that is reported and paid through the individual returns of small business owners. According to the Kansas Department of Revenue, in 1996, 180,000 individual income tax returns filed included business income. This number represents 15.7 percent of the total returns filed. These statistics demonstrate that the individual income tax is not just a tax on wages, interest income and taxable benefit payments. It is a significant tax on the small business sector of the Kansas economy. **Reducing individual income taxes would put more money in the hands of small business owners that they could use to expand their businesses, create new jobs and continue the state's economic prosperity.**

Greater Kansas City Chamber of Commerce | 2600 Commerce Tower • 911 Main Street • Kansas City, Missouri 64105-2049
816/221-2424 • FAX 816/221-7440 • www.kcchamber.com

House Taxation
2-9-99
Attachment 4

The Chamber also strongly supports the corporate income tax rate reductions in HB 2190 to provide much-needed relief for corporate income taxpayers and to make Kansas more competitive in this area.

The Greater Kansas City Chamber of Commerce understands the need to balance the various tax reduction and spending proposals with sound fiscal policy. If there is money available this year for tax reduction, The Chamber urges the Legislature to consider tax cuts that will fuel the engine of continued economic growth in this state. **Reducing individual and corporate income tax rates will give Kansas wage earners, business owners and corporate citizens money to put back into the economy through consumer spending, investment and savings, business expansion and job creation**. Continuing the state's economic growth will give more Kansans the opportunity to enjoy prosperity and a better quality of life.

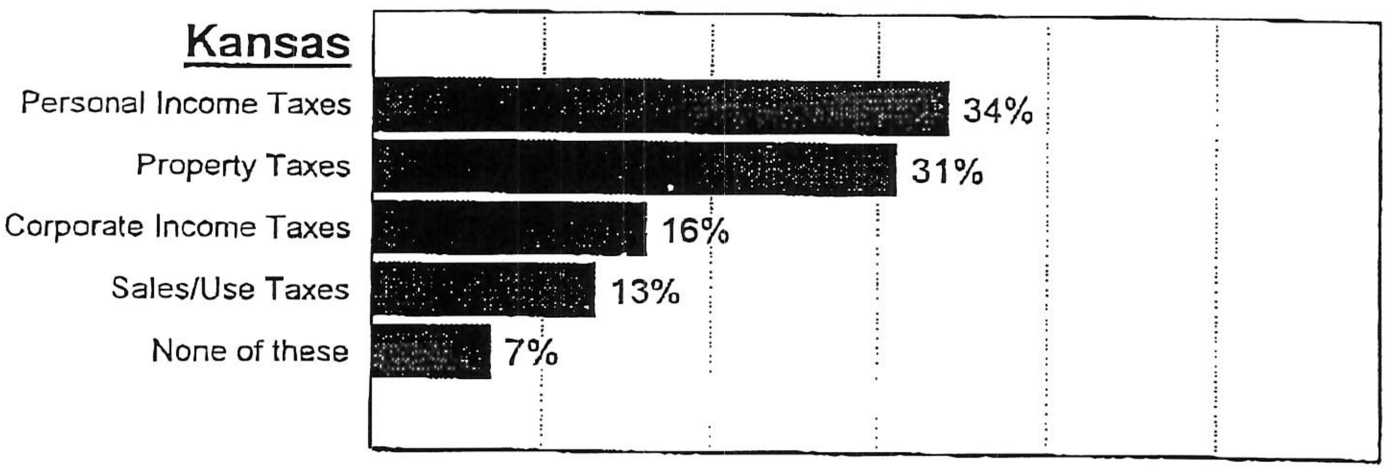
Thank you for considering The Chamber's position in support of HB 2190. I would be happy to answer any questions.

THE CHAMBER

Greater Kansas City Chamber of Commerce

Greater Kansas City Chamber of Commerce
Government Relations Issues Survey
October 1998

Most Important State Taxes to Reform/Reduce



Prepared by ETC Institute

Greater Kansas City Chamber of Commerce 2600 Commerce Tower • 911 Main Street • Kansas City, Missouri 64105-2049
816/221-2424 • FAX 816/221-7440 • www.kcchamber.com

OVERLAND PARK
CHAMBER OF COMMERCE

Testimony on HB 2190

Before the House Taxation Committee

by

Mary Birch, President
Overland Park Chamber of Commerce
February 9, 1999

Good morning, Chairman Adkins and members of the committee. My name is Mary Birch, president of the Overland Park Chamber of Commerce. I have been asked by our members to express the chamber's strong support for HB 2190, which would reduce individual and corporate income tax rates.

Income taxes are a significant concern to our membership. Approximately 80% of our 1,100 members are small businesses, who often pay through the individual income tax system. In 1997 and 1998 surveys, our members overwhelmingly cited individual and corporate income taxes as the state tax that most negatively impacted their business and adversely influenced their company's economic activity.

Parity of business tax burdens with neighboring states is important, and income tax rates in Kansas are not regionally competitive. Individual income tax rates at the upper margins, where businesses most often pay, are the second highest in our region behind only Iowa, who has the federal deduction. Seven states, including Texas, a major competitor of ours, impose no individual income tax.

Kansas' corporate income and privilege taxes are also substantially above average. According to the Kansas Department of Revenue's F.Y. 1997 Annual Report, the per capita corporate tax burden in Kansas was $99, substantially above both the second highest tax burden, $79 in

House Taxation
2-9-99
Attachment 5

10975 BENSON ▪ SUITE 350 ▪ OVERLAND PARK, KANSAS 66210 ▪ P.O. BOX 12125 ▪ OVERLAND PARK, KANSAS 66282-2125
913.491.3600 ▪ FAX 913.491.0393 ▪ INTERNET: http://www.opks.org/

Missouri, and the regional average of $72.

High individual and corporate income tax rates place Kansas businesses at a competitive disadvantage. Existing companies that choose to remain in Kansas must not only pay the higher rates -- money that could otherwise be invested in productivity and growth -- but they must also try to attract high-level professionals, managers, and skilled workers to a state that taxes their personal income at a rate higher than neighboring states.

Further, Kansas is also at a competitive disadvantage in attracting new businesses to the state. Potential tax burden is a critical factor considered by entrepreneurs and companies seeking to establish new business sites. Kansas' noncompetitive income tax rates substantially diminish the state's ability to promote this important economic development.

Reducing individual and corporate income tax rates would benefit a majority of Kansas families and businesses, foster the state's competitive potential, and assist in attracting and retaining a skilled workforce and quality economic development. The chamber therefore respectfully urges the committee to report HB 2190 favorably for passage. Thank you for your time and consideration. I would be happy to stand for questions.

Gregory Associates
meetings that work

Monday, February 08, 1999

Katie Logan, Chairman
Overland Park Chamber of Commerce
10975 Benson Suite 350
Overland Park, KS 66210-2120

Subject: Tax reduction

Dear Ms. Logan:

I understand that the Chamber will be testifying this week in favor of personal and corporate income tax rate reductions. As the owner of a start-up business and a new member of the Overland Park Chamber of Commerce, I wanted to voice my support for your efforts. Business owners will put tax savings right back into the economy with the efficiency that only the market can provide. Tax relief will help me make my business a success.

Thanks for your efforts on our behalf and good luck!

Sincerely yours,

Gordon Gregory

Gordon Gregory

11207 W. 99th Place
Overland Park, KS 66214
(913) 307-0396 • Fax (888) 453-1327 • GAmeetings@aol.com

House Taxation
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LEGISLATIVE TESTIMONY

the Kansas Chamber of Commerce and Industry
The Unified Voice of Business

835 SW Topeka Blvd. • Topeka, KS 66612-1671 • 785-357-6321 • Fax: 785-357-4732 • E-mail: kcci@kansaschamber.org • www.kansaschamber.org

HB 2190 February 9, 1999

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by
Natalie Bright
Director of Taxation and Small Business

Chairman Adkins and members of the Committee:

My name is Natalie Bright, Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry. At our annual meeting, KCCI members identified reduction of personal and corporate income tax rates as one of their top three concerns for the1999 legislative session. As such, I am pleased to have this opportunity to express our members' support for HB 2190, which will reduce both personal and corporate income tax rates.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 46% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

Maintaining a competitive business environment is an essential component to keeping the Kansas economy strong. Recent income tax studies conducted by Kansas Inc. and the

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Kansas Division of Budget indicate that Kansas corporate and individual taxpayers are subjected to some of the highest income tax rates in our region. Since corporate and individual income taxes significantly affect the business climate of any state. KCCI members believe that in order for Kansas to maintain a competitive advantage, our income tax rates must be reduced.

Currently in Kansas, corporate income over $50,000 is taxed at a rate of 7.35%, which is second only to Nebraska's rate of 7.8%. Iowa does assess a corporate income tax rate as high as 9.9%, however, is offset by an allowance for a 50% deductibility for federal income tax. In addition, a 1997 study conducted by Kansas Inc. found that 6.8% of Kansas' total revenue comes from corporate income tax while the regional average is only 4.4%. KCCI believes reducing Kansas' corporate income tax rates will stimulate corporate and industrial growth in Kansas, rather than shifting it to our bordering states.

KCCI members are also concerned with reducing individual income tax rates. In 1993, the Kansas Division of Budget analyzed personal income tax returns for 1993 and found that about 12% of the returns were derived from businesses. Of that 12%, the overall effective tax rate on the business income was 3.2% while individual income was at 2.99%. When the same study compared the number of businesses filing corporate versus individual income tax returns, it found 85.6% of the business income tax liability came from businesses filing individual returns. From this analysis, it is clear that individual income rates have a significant impact on business income.

Kansas businesses are also concerned with individual income tax rates because they directly impact their employees. In order to compete in today's tight employee market, employers must put together competitive compensation packages. With the rate of Kansas' top income tax bracket higher than our surrounding states, Kansas businesses are often at a disadvantage with our neighboring states. In fact, the 1998 Governor's Task Force on Taxes suggested that to make Kansas regionally competitive, the top income bracket should be removed. With the national unemployment level at its all time low, KCCI believes reducing all personal income rates, will provide Kansas businesses with an incentive to attract the workforce our state so badly needs.

The members of KCCI hope you will take this information into account as the 1999 Legislature continues its debate over what tax reductions to provide to Kansans. If passed, HB 2190 will benefit all taxpayers. Thank you for your time and consideration.

Statement by
Hal Hudson, State Director
Kansas Chapter
National Federation of Independent Business
Before the
Kansas House Taxation Committee
On H.B. 2190
February 9, 1999

Mr. Chairman and Members of the Committee: Thank you for allowing me to present this statement in support of H.B. 2190. My name is Hal Hudson, and I am here representing the more than 7,000 small and independent business owners of Kansas who are members of NFIB.

The burden of taxation continues to be heavy for small business owners of Kansas – those who form the very backbone of the Kansas economy – and any relief would be welcomed.

A good many small businesses in Kansas are proprietorships, partnerships or "S" corporations. Thus their income is taxed at the individual rates.

Since most Kansas small business owners take home less than $60,000 in an average year, the income tax reductions proposed in H.B. 2190 represent very modest savings in the first year. The saving does get better in the out years.

I don't envy you the job you have of sorting out all the tax exemptions and reductions that are asked for, and trying to determine which will be best for all of Kansas. However, I will assert that, dollar-for-dollar, tax relief granted Kansas businesses will do the most sustain and expand the Kansas economy.

Based on recent NFIB surveys of our Kansas members, their preference in tax reduction was: #1 - property tax reduction, and #2 – income tax reduction. Therefore, while a reduction in income tax will be welcomed, we hope it will not come at the expense of property tax reduction proposals you have pending before you in this session.

We urge you to adopt H.B. 2190, and to give favorable consideration to the property tax issues before you. Thank you.

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National Federation of Independent Business
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STATE OF KANSAS

DIVISION OF THE BUDGET
Room 152-E
State Capitol Building
Topeka, Kansas 66612-1575
(785) 296-2436
FAX (785) 296-0231

Bill Graves
Governor

Duane A. Goossen
Director

February 8, 1999

The Honorable David Adkins, Chairperson
House Committee on Taxation
Statehouse, Room 448-N
Topeka, Kansas 66612

Dear Representative Adkins:

SUBJECT: Fiscal Note for HB 2188 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2188 is respectfully submitted to your committee.

HB 2188 would set the uniform school district general fund mill levy at 18.76 mills for the 1999-2000 school year and 17 mills for the 2000-2001 school year. The bill also establishes maximum levies for future years: 12.84 mills for the 2001-2002 school year, 10.12 mills for the 2002-2003 school year, and 6.1 mills for the 2003-2004 school year and following years. The levy for the 1998-1999 school year is 20 mills.

Estimated State Fiscal Impact				
	FY 1999 SGF	FY 1999 All Funds	FY 2000 SGF	FY 2000 All Funds
Revenue	--	--	--	--
Expenditure	--	--	$12,900,000	$12,900,000
FTE Pos.	--	--	--	--

The passage of HB 2188 would require additional expenditures from the State General Fund for general state aid to schools to offset the loss of local property revenue. The table below demonstrates the total annual impact of the bill on State General Fund expenditures for school finance. The estimate uses the current 20 mill levy rate as the base for comparison and assumes

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the continuation of the $20,000 residential exemption. Any fiscal effect resulting from the passage of this bill is in addition to amounts included in *The FY 2000 Governor's Budget Report*.

FISCAL YEAR	FISCAL IMPACT
2000	$12.9 million
2001	$40.8 million
2002	$101.1 million
2003	$166.8 million
2004	$241.7 million

Sincerely,

Duane A. Goossen

Duane A. Goossen
Director of the Budget

cc: Lynn Robinson, Revenue

Kansas Association of REALTORS®

3644 S.W. BURLINGAME ROAD • TOPEKA, KANSAS 66611-2098
TELEPHONE 785/267-3610 • 1-800-366-0069
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TO: HOUSE TAXATION COMMITTEE MEETING

FROM: KAREN FRANCE, DIRECTOR OF GOVERNMENTAL AFFAIRS

DATE: FEBRUARY 9, 1999

SUBJECT: HB 2188, STATEWIDE SCHOOL PROPERTY TAX LEVY RATE

Thank you for the opportunity to testify. On behalf of the Kansas Association of REALTORS®, I appear today to support HB 2188, which proposes to continue the rollback of the statewide mill levy for schools.

It has been our long-standing position that real estate is burdened with an excessive share of the constantly increasing cost of state and local government. We believe real estate taxes should be used only to pay for state and local governmental services that are rendered to real estate. Other types of taxation should pay for people-related services and programs such as education. We have advocated the restructuring of state and local taxation sources for the funding of non-property related services. We urge the state to work for the restructuring of taxes to relieve the inequitable real property tax burden but also not to unfairly shift the tax burden to any tax paying entity. We support the continual, gradual reduction of the statewide mill levy to the extent possible.

Property ownership is no longer an indication of the ability to pay. When it was first instituted, years ago, the ownership of property was an indicator of wealth. That is no longer the case. For example, we have people on fixed incomes whose property has appreciated in value through no fault of their own and their property tax bills have essentially become a rental payment to the government for their homes.

When the statewide mill levy was adopted in 1992, it began another whole spectrum of property taxation, by putting the state in the business of levying property tax far beyond the 1 1/2 mills it used to levy. The state now has to worry about increases and decreases in the statewide assessed valuation and is now a reluctant player in the game of maintaining current levels.

We commend the Governor and the Legislature for the rollback of the statewide mill levy that has been achieved with the application of the surplus revenues. We urge the committee to continue to reduce and perhaps someday remove the statewide mill levy. We think it will be in the long-term best interest of the state to get out of the business of assessing property taxes and into the business of removing, at least partially, the application of an antiquated tax.

We do offer a caveat, however, and that is, if you remove or reduce the statewide mill levy for schools, you have to make sure the gain for taxpayers is not eaten up by the other taxing authorities without taxpayer input. We urge the extension of the property tax lid. The tax lid gives taxpayers more control over local government use of property tax dollars.

Thank you for the opportunity to testify.

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KANSAS LIVESTOCK ASSOCIATION

Since 1894

Testimony

presented by

Rich McKee
Executive Secretary, Feedlot Division

regarding

House Bill 2188

before the

HOUSE COMMITTEE ON TAXATION

February 9, 1999

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing over 7,400 members on legislative and regulatory issues. KLA members are involved in all segments of the livestock industry, including cow-calf, feedlot, seedstock, swine, dairy and sheep. In 1997, cash receipts from agriculture products totaled over $8.9 billion, with nearly fifty-five percent of that coming from the sale of livestock. Cattle represent the largest share of cash receipts, representing ninety percent of the livestock and poultry marketing's.

****

The Kansas Livestock Association supports House Bill 2188. We believe property taxation is largely an antiquated method of collecting revenue. It is a nineteenth century concept when land ownership was a more reliable indicator of wealth or of a taxpayer's ability to pay. Property taxation originated in the days when our society was based largely on agricultural activity and all those one-room schoolhouses and courthouses had to be funded whether or not agriculture made a profit. Today, our entire society has changed dramatically. No longer is property (either real or personal) a reliable indicator of wealth or ability to pay. Remember that all property tax must be paid from income. In today's society, it is not correct to assume that a mortgaged farm or home is a reliable indicator of wealth. Today, wealth is basically in the form of investments and income.

Some suggest the current mix of income, sales and property taxes is "balanced". We would suggest the system is "balanced" only in the sense that roughly the same amount of revenue is collected by each method of taxation. It is our belief a more equitable tax system should place less reliance on property tax.

Thank you for considering our position and we urge to give favorable consideration to House Bill 2188.

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GREATER TOPEKA CHAMBER OF COMMERCE

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Testimony before the House Taxation Committee
February 9, 1999
By Christy Caldwell, Vice President Government Relations
Greater Topeka Chamber of Commerce

Chairman Adkins and members of the committee. I am Christy Caldwell, Vice President of Government Relations for the Greater Topeka Chamber of Commerce.

I am here today to express the Topeka Chamber's support of HB 2188, the phase down of the statewide school property tax levy.

We realize that you have several options before you to reduce taxes this year. We would like to encourage you to continue the reduction of property taxes. As you heard last week, the business machinery and equipment property tax continues to be particularly burdensome for Kansas companies. There is another bill, SB 44, that addresses machinery and equipment taxes with an income tax credit, which we strongly support. However, HB 2188 will reduce machinery & equipment taxes through an overall mill reduction and will reduce the real estate property tax on business and residential property.

Topeka and Shawnee County continue to suffer from high property taxes. Even with previous reductions of the statewide mill levy we continue to hear taxpayer concerns about high property taxes.

Year	Topeka Total Mill Levy	Statewide School Mill Levy
'94	169.48	35
'95	168.80	35
'96	164.22	35
'97	158.72	27
'98	150.71	20
Reduction from '94-'98	18.77	15

As you can see from the chart, the City of Topeka's mill levy in 1994 was 169.48 mills, 35 mills of that was the statewide education mill levy. The 1998 mill levy is 150.71 mills with 20 mills for statewide education. The various local taxing authorities have been working to pass the savings from the state's actions, to reduce the mill levy, on to the local taxpayers. As you can see, the mill levy did go down those 15 mills and a little more – totally 18.77 mills over the five-year period.

We are still experiencing property tax levels that individuals and businesses do not feel are acceptable, as I'm sure taxpayers in other counties across the state also express. In a recent survey of our membership, 70% said property tax, both machinery and equipment and real estate, is where they want to see tax relief. On behalf of those members, the Chamber asks for your support of HB 2188. Thank you.

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LEGISLATIVE TESTIMONY

the Kansas Chamber of Commerce and Industry
The Unified Voice of Business

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HB 2188

February 9,1999

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

House Taxation Committee

by

Natalie Bright
Director of Taxation and Small Business

Chairman Adkins and members of the Committee:

My name is Natalie Bright, Director of Taxation and Small Business for the Kansas Chamber of Commerce and Industry, and I appreciate the chance to express our members' call for meaningful property tax relief. Few would dispute that HB 2188 represents a major stride in the business community's pursuit of reducing property taxes.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 47% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

We are pleased with the efforts of the Governor and Legislature in reducing business property taxes last session, but there is still work to be done. Our members consistently rank property tax relief as their highest tax priority in statewide polling. The seven-mill levy drop from 27 down to 20

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mil... was a significant deduction. This benefit, however, is diluted as appraised values keep ris. Clearly, HB 2188 would be a step toward attaining our members' goal to significantly reducing property tax.

Business machinery and equipment (M&E) would benefit greatly from additional reduction, and relief here could not be more justified than with any other property class. Regionally, the1997 effective tax rates for business machinery and equipment were as follows:

Kansas	2.53%
Colorado	2.41%
Nebraska	2.33%
Missouri	1.97%
Oklahoma	1.16%
Iowa	0%

As you can see, Kansas continues to assess the highest property tax against business machinery and equipment in our region. While on the other hand, Kansas residential property tax rates rank in the middle for our region.

Multi-state tax comparisons clearly identify Kansas commercial property owners as the sector most in need of property tax relief. A 1996 nationwide study by the Minnesota Taxpayers Association ranked Kansas as the 12th most expensive state for urban commercial property taxes, 7th most expensive for suburban commercial, and the nation's highest in rural commercial property taxes (effective tax rates for all states were compared). The same study ranked Kansas residential property taxes as 34th highest in the country.

KCCI does not seek to grasp every dime of property tax relief available solely for the business community. The most equitable and the easiest way to distribute relief is to lower the minimum USD mill levy across-the-board for all taxpayers. KCCI supports further reduction of the mill levy because with this approach, homeowners still get more tax relief than any other class, but all classes would receive relief in proportion to their share of the tax base.

Again, KCCI members rank property tax relief as one of their top priorities and strongly encourage you to favorably consider HB 2188.

Statement by
Hal Hudson, State Director
Kansas Chapter
National Federation of Independent Business
Before the
Kansas House Taxation Committee
On H.B. 2188
February 9, 1999

Mr. Chairman and Members of the Committee: Thank you for allowing me to present this statement in support of H.B. 2188. My name is Hal Hudson, and I am here representing the more than 7,000 small and independent business owners of Kansas who are members of NFIB.

Many times before today I have appeared before the tax committees of this Legislature in support of measures to reduce the property tax on small business. With regard to state-wide school levy, the preference of NFIB members, voiced on numerous ballot surveys, is total elimination of this tax. H.B. 2188 is a move in that direction.

The reduction for the 1999-2000 and 2000-2001 school years is commendable, and we support it. We have some concern about the reductions proposed for future years, and the ability of this session to bind future Legislative sessions to the proposed reductions.

However, any measure that reduces the overall expense of property tax paid by Kansas small businesses is desirable, and that which reduces this burden the most and the fastest is the most desirable.

While we continue to support measures to ease the burden of property tax on machinery and equipment, we must acknowledge that the effect of H.B. 2188 would reduce the tax on machinery and equipment, and land and buildings at the same time. It also would reduce the property burden on the ownership of homes – including those of small business owners.

We encourage you to report H.B. 2188 favorably, and to support its enactment.

Thank you.

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National Federation of Independent Business
3601 S.W. 29th Street, Suite 116B • Topeka, KS 66614-2015 • 785-271-9449 • Fax 785-273-9200

PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON TAXATION

RE: HB 2188 -- Reduces property taxes by phasing-down the statewide school mill levy.

February 9, 1999
Topeka, Kansas

Prepared by:
Bill R. Fuller, Associate Director
Public Affairs Division
Kansas Farm Bureau

Chairman Adkins and members of the House Committee on Taxation, we appreciate this opportunity to express Kansas Farm Bureau support for HB 2188. The measure proposes to reduce property taxes by phasing-down the statewide school mill levy from the current rate of 20 mills to 6.1 mills in the 2003-2004 school year.

A long-standing public policy position was reviewed and again adopted by the 435 Voting Delegates representing all 105 county Farm Bureaus at the 80th Annual Meeting of Kansas Farm Bureau:

> ***"The state property tax for school finance should continue to be phased-out. We support replacement of those property tax revenues by increased reliance on sales and income tax revenues."***

At the same time, the farm and ranch members of KFB express support for adequate funding for quality education in Kansas in another member adopted resolution:

> ***"We strongly support adequate funding for a quality K-12 education program for all students in Kansas."***

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A number of tax reduction bills have been introduced and several have been debated. Other plans are likely to be considered. The highest priority for KFB members is the continued phase-out of the statewide school property tax. The significant reduction in the statewide mill levy for schools proposed in HB 2188 receives strong support from KFB.

On January 21, 1999 this committee conducted hearing on two plans to reduce the property tax paid on motor vehicles. We observed that both HB 2036 and HB 2030 reduce the reliance on the property tax. We informed the committee both bills meet the criteria outlined in our member-adopted policy. After review of both proposals, we can now advise you that KFB prefers HB 2036. This plan holds counties harmless by replacing the revenue with state funds, mostly state sales and income tax collections. We must emphasize however, that eliminating the property tax on motor vehicles is a lower priority for KFB than phasing-out the school property tax.

We thank you for considering the tax reduction policies and priorities of the members of Kansas Farm Bureau. We respectfully ask the committee to approve HB 2188 that provides a significant property tax reduction by reducing the statewide school mill levy.

We will respond to any questions you may have.

KANSAS TAXPAYERS NETWORK web:www2.southwind.net/~ktn
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Wichita, KS 67208 FAX 316-684-7527

9 February 1999

STATEMENT SUPPORTING H.B. 2188

By Karl Peterjohn, Exec. Dir.

KTN has testified repeatedly in support of cutting the statewide property tax. We are pleased to provide this testimony to this committee in 1999. KTN is pleased that the statewide property tax has been reduced from 36.5 mills two years ago to 21.5 mills today. We support efforts to further reduce the size of this tax. The 15 mill reduction has played a significant role in promoting economic growth statewide.

More work is needed. KTN would like to see the state get out of levying any property tax. Traditionally, the property tax has been a local levy in Kansas. Since local units, cities, counties, townships, special taxing districts, and schools all levy a property tax there is often difficulty in assigning accountability when the property tax bill arrives. Once the state stops levying this tax, then this would make this tax a purely local matter.

Eventual elimination of this unpopular tax is a real possibility now that the mill levy has been reduced by roughly 40 percent compared to two years ago. Many of the concerns initially expressed about cutting this tax have been addressed as this levy was reduced in 1997 and again in 1998. These reductions have slightly diminished some of the many vexing equalization issues for statewide appraisal.

However, there are problems with cutting the statewide property tax which have not been adequately addressed. Since school districts are outside the statutory property tax lid, since many local units have used home rule and have gone outside the property tax lid, so there is a great deal of confusion over where the property tax goes. A large part of the statewide property tax cut has disappeared before taxpayers ever received it because of local tax hikes.

Local taxes were raised in ways which hid the increases from taxpayers. Included in this is the fact that soaring appraisals have diminished the statewide tax cuts.

So if this committee is considering another reduction in the statewide property tax a significant requirement should be added by this committee. Any millage increases being enacted locally should require voter approval at the next scheduled election before taking effect. KTN would like to see this as a permanent requirement for raising property taxes but at a minimum this requirement should be in place until the state's property tax cut is fully enacted.

If a cap on appraised value does not pass this legislature, there should be a requirement enacted which would force a mill levy rollback which would proportionately offset the increase in appraised value at the local level. This revenue neutral solution would prevent the appraiser's appraisal list from serving as an automatic tax hike on existing property.

These protections are needed before the statewide property tax can be effectively reduced from tax hungry local units in this state so that the property tax cuts enacted at the state level actually appear when the taxpayers open their tax statements.

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KANSAS ASSOCIATION OF SCHOOL BOARDS
1420 SW Arrowhead Road • Topeka, Kansas 66604-4024
785-273-3600

TO: House Committee on Taxation
FROM: Mark Tallman, Assistant Executive Director for Advocacy
DATE: February 9, 1999

RE: Testimony on H.B. 2188

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear today. Our association does not often comment directly on tax issues. Our members have not adopted specific policy positions in this area. But we have adopted positions on questions of state funding for public education, and we realize the tax policy of the state has a great impact on the resources available to finance its obligations.

Public education is one of those obligations. The State Constitution specifically charges the Legislature with providing "suitable" funding for public schools. KASB does not believe that funding for public elementary and secondary education has been "suitable" for at least the past five years. This has been, in large part, because the tax cuts adopted in recent years have reduced the amount of funding available for state aid to education.

I have attached to my testimony a summary of some of the major trends in school funding, which I would like to briefly review.

These figures should make very clear that although state aid has risen significantly as a result of "buying down" school district mill levies, general budget support of public schools has fallen far behind inflation. Districts have been able to offset this to a degree by increasing the local option budget, which requires an increase in property taxes, eroding the relief promised by the state. However, a growing number of school districts, including most of the largest districts in the state, have reached the maximum LOB level. Their future budget increases will be limited to what the state provides.

This year, KASB has joined with a wide range of state and regional educational organizations in support of a single "unified" position on school finance. That position simply asks the state to provide base increases equal to inflation, some additional equity funding for larger districts and funding stability for districts losing enrollment, plus funding for mandated programs like special education and technology. The Governor's recommendations in these areas fall far short of these requests. We are deeply concerned that any further tax reductions, unless offset by tax increases, will leave schools underfunded for next year and into the foreseeable future.

We hope the committee takes these concerns into account as you consider tax policies this year. Thank you for your attention.

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Trends in School Funding: A Closer Look

Summary

In the past five years, 1993-94 through 1997-98:

* The consumer price index increased 11.5%.

* The base budget per pupil was increased by the Legislature less than 2%.

* Total school district general fund budgets per pupil rose 5.9%. (This includes increases in the base plus changes in weightings, such as correlation and at-risk.)

* Even including the local option budget, total school district spending in the general fund and supplemental general fund increased 9.5%.

Only by including all school districts expenditures from every source to total expenditures exceed inflation. Most of these expenditures are not available for general education purposes. These restricted funds include:

* Capital Expenditures, including debt service on bonds, which are limited to districts that approve them.

* Food Service, which is mostly funded by federal aid and student fees and is available for instructional costs.

* Other Federal Funds, which are targeted at specific districts and students.

* Special Education, which is largely controlled by federal and state mandates.

Finally, state aid rose 24% in that five year period. But a significant portion of that increase was used to reduce and replace property school district property taxes, including:

* Eliminating the statewide mill levy on motor vehicles.

* Reducing the statewide mill levy on other property from 35 mill to 20 mills

* Providing state aid to less wealthy districts for local option budgets and bond and interest payments.